

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL MEMORANDUM**

**SB 705 – HB 1289**

May 2, 2017

**SUMMARY OF ORIGINAL BILL:** Authorizes the Avenue Diner in Davidson County to sell or give away alcoholic beverages, malt beverages, and wine all hours of the day except between 3:00 a.m. and 4:00 a.m.

**FISCAL IMPACT OF ORIGINAL BILL:**

Increase State Revenue – \$1,700

Increase Local Revenue – \$1,200

**SUMMARY OF AMENDMENTS (006376, 008312):** Amendment 006376 adds language to the original bill to authorize a restaurant in Pennington Bend in Davidson County to sell or give away alcoholic beverages, malt beverages, and wine all hours of the day except between 3:00 a.m. and 4:00 a.m.

Amendment 008312 adds language to the original bill authorizing a licensed alcohol manufacturer to have a direct or indirect interest in an establishment license for on premises consumption. Deletes this authorization on July 1, 2019.

**FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:**

**Increase State Revenue – \$2,600**

**Increase Local Revenue – \$1,800**

Assumptions relative to the Avenue Diner:

- Pursuant to Tenn. Code Ann. § 57-4-203, restaurants are prohibited from selling alcoholic beverages, malt beverages, and wine between the hours of 3:00 a.m. and 8:00 a.m. and between 3:00 a.m. and 12:00 noon on Sundays.
- The Avenue Diner is authorized under current law to sell alcoholic beverages as a restaurant; therefore, this legislation will not result in additional licensing revenue for the Alcoholic Beverage Commission.

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- This legislation will extend the hours that sales of such beverages are authorized.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate in Davidson County is 2.25 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- Pursuant to Tenn. Code Ann. § 57-4-306(a), 50.0 percent of the 15.0 percent LBD tax is allocated to the state General Fund and 50.0 percent is distributed to the local government.
- Based on the interquartile average of 2014 LBD tax returns and assuming reasonable growth rates in LBD tax collections, the average taxable base per establishment is estimated to be approximately \$120,000 per year.
- Authorizing sales during additional hours is estimated to increase sales by 10 percent or \$12,000 per year.
- The recurring increase in state revenue to the General Fund is estimated to be \$1,710  $[(\$12,000 \times 7.0\%) - (\$12,000 \times 7.0\% \times 3.617\%) + (\$12,000 \times 15.0\% \times 50.0\%)]$ .
- The recurring increase in local revenue is estimated to be \$1,200  $[(\$12,000 \times 2.25\%) + (\$12,000 \times 7.0\% \times 3.617\%) + (\$12,000 \times 15.0\% \times 50.0\%)]$ .
- Any revenue collected from any state or local taxes imposed on manufacturers or wholesalers is estimated to be not significant.

Assumptions relative to the Pennington Bend Restaurant:

- Pursuant to Tenn. Code Ann. § 57-4-203, restaurants are prohibited from selling alcoholic beverages, malt beverages, and wine between the hours of 3:00 a.m. and 8:00 a.m. and between 3:00 a.m. and 12:00 noon on Sundays.
- This restaurant is authorized under current law to sell alcoholic beverages as a restaurant; therefore, this legislation will not result in additional licensing revenue for the Alcoholic Beverage Commission.
- This legislation will extend the hours that sales of such beverages are authorized.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate in Davidson County is 2.25 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- Pursuant to Tenn. Code Ann. § 57-4-306(a), 50.0 percent of the 15.0 percent LBD tax is allocated to the state General Fund and 50.0 percent is distributed to the local government.
- Based on the interquartile average of 2014 LBD tax returns and assuming reasonable growth rates in LBD tax collections, the average taxable base per establishment is estimated to be approximately \$120,000 per year.
- Given the size of this particular venue, recurring sales are estimated to be 50 percent of the average taxable base, or \$60,000  $(\$120,000 \times 50\%)$  per year.
- Authorizing sales during additional hours is estimated to increase sales by 10 percent or \$6,000 per year.
- The recurring increase in state revenue to the General Fund is estimated to be \$855  $[(\$6,000 \times 7.0\%) - (\$6,000 \times 7.0\% \times 3.617\%) + (\$6,000 \times 15.0\% \times 50.0\%)]$ .

- The recurring increase in local revenue is estimated to be \$600  $[(\$6,000 \times 2.25\%) + (\$6,000 \times 7.0\% \times 3.617\%) + (\$6,000 \times 15.0\% \times 50.0\%)]$ .
- Any revenue collected from any state or local taxes imposed on manufacturers or wholesalers is estimated to be not significant.

Assumptions relative to licensed manufacturers:

- Authorizing manufacturers to have an interest in establishments that are licensed to sell alcohol for on premise consumption may lead to an increase in the number of establishments that apply for such license in FY17-18 and FY18-19.
- The precise impact is dependent on multiple unknown factors and cannot be reasonably determined; however, the net impact on state and local revenue over the two year period is estimated to be not significant.

Total Impact Assumptions

- The total recurring increase in state revenue to the General Fund is estimated to be \$2,565  $(\$855 + \$1,710)$ .
- The total recurring increase in local revenue is estimated to be \$1,800  $(\$600 + \$1,200)$ .

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

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